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DEPARTMENT FOR AF/E
LONDON, PARIS, ROME FOR AFRICA WATCHER

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SUBJECT: IMF IN FINAL NEGOTIATIONS FOR DJIBOUTI PRGF

¶1. (SBU) SUMMARY: In a June 23 briefing, an International Monetary Fund (IMF) delegation briefed donors in Djibouti on the results of their week-long mission to negotiate a new Poverty Reduction and Growth Facility (PRGF) agreement with the GODJ. While the IMF team was upbeat about the overall economic outlook for Djibouti, they articulated concern that the GODJ's insistence on a higher percentage of quota access for the PRGF was holding up final agreement on the project. END SUMMARY.

¶2. (U) In a June 23 briefing, an IMF team led by Mr. Fernando L. Delgado, Middle East and Central Asia Deputy Division Chief, briefed international donors present in Djibouti on the results of their visit. European Union, French, and USG representatives were present.

GODJ WANTS HIGHER QUOTA ACCESS

¶3. (SBU) Delgado said that the primary focus of the mission had been to gather outstanding data on Djibouti's external debt situation that the team had been unable to identify during their earlier March 2008 trip. Delgado confirmed that all necessary data were now complete, and said that the IMF and the GODJ had agreed on all technical details. The only remaining sticking point, he said, is the GODJ's request for 120% quota access (about USD 20 million), instead of the 65% quota access IMF is currently offering (about USD 10 million). Delgado said that the GODJ was looking for the same terms--120%--as they received for Djibouti's last PRGF in 1999.

¶4. (SBU) Delgado explained that while the PRGF is designed to help developing countries with a gap in the balance of payments, in Djibouti--which does not have a balance of payments problem--the IMF was willing to consider a PRGF due to the heavy impact of current high food and oil prices on Djibouti's import-dependent economy. Delgado also pointed out that Djibouti's healthy balance of payments is almost entirely due to investment at the new Port of Doraleh project, and that many ordinary Djiboutians are not yet directly benefiting from this economic activity.

PROPOSED PROGRAM DETAILS

¶5. (SBU) Delgado said that the overall goal of the program would be both to create fiscal space for poverty reduction expenditures, and to promote sound fiscal policy, thereby acting as a catalyst for donors and private investors. Delgado outlined the major components of the proposed PRGF, including requirements for the GODJ to:

--Introduce a value-added tax (VAT) of at least 7% by 2009.

--Reduce budget costs to create fiscal space for the National Strategy for Social Development (INDS). Outlined budget cutting measures are to include a freeze on nominal salaries in the public service sector during the entire duration of the program, as well as a freeze on new public-sector hires, with an exception in the social

sectors (i.e. education and health).

--Increase transparency by better publication of economic data, including more disaggregation in end-of-year data.

--Halt accrual of external arrears, and pay down domestic arrears.

--Refrain from taking on any new government or public enterprise debt on non-concessional terms, save in exceptional cases and with prior IMF consultation.

--Preserve the integrity of the Currency Board, increase the minimum capital required for private banks, increase supervision of the private banking sector, and implement all previous IMF recommendations on anti-money laundering and terrorist finance.

--Reorganize the national electricity company EDD, by reducing personnel costs and eliminating redundancies as recommended by an independent study to be concluded in August 2009.

--Conclude a political agreement with Ethiopia to set tariff levels for purchase of electricity from Ethiopia's grid.

--Present the Code of Commerce to the National Assembly.

--Finalize the new labor code and collective bargaining process.

--Report results of the ongoing census by February 2009; begin work on a survey of household expenditures and economic establishments.

¶6. (SBU) During the subsequent question-and-answer session, a French representative commented that Djibouti needed to recognize that the

IMF was already stretching the PRGF guidelines to offer Djibouti a program, and not insist on higher quota access. In response, a Central Bank of Djibouti representative said that the GODJ needed the higher access to help sell this potentially painful program domestically. The Central Bank representative also reiterated the problem of current large foreign direct investment flows not always benefiting the population at large. He explained that while the GODJ did understand the difficulty of making a case for higher quota access, the GODJ felt the need to provide for "eventualities" in an uncertain economic environment.

¶7. (SBU) COMMENT: The IMF's overall assessment of Djibouti's economy was generally optimistic. However, while the delegation projected 7% annual growth rates, they also emphasized Djibouti's extreme vulnerability to external shocks. The GODJ is holding out for larger quota access. However, as the IMF pointed out, the real value of the PRGF is not in the absolute funding access levels, but in lasting structural reforms that increase Djibouti's economic resilience. END COMMENT.

LIST